FISCAL NOTE

SB 35 - HB 31

SECOND EXTRAORDINARY SESSION

November 9, 1999

SUMMARY OF BILL: Provides various changes to Tennessee's tax structure as follows:

1. Repeals the Hall Income Tax. (Effective 1-1-00).

2. Provides for a tax f 3.75% on adjusted gross income with exemption levels for various taxpayers. (Effective 1-1-00) Employers may begin withholding and remitting the tax after January 1, 2000 but no later than the first payroll period which ends after March 31, 2000 with amounts being withheld to spread the withholding equally over all remaining payroll periods of the calendar year.

3. Provides for a credit against the Professional Privilege Tax.
(Effective 1-1-00)

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - $2,360,000,000 First Full Year
$1,221,120,000 FY 99-00
Increase State Expenditures - Dept. of Revenue:
$11,725,600 FY 99-00 (7 mos.)
$28,098,400 FY 00-01

	1st Full Year	FY99-00
State Revenues Increased		
Flat Tax (net of exemptions and deductions)	$2,544,000,000	$1,221,120,000
Less:		
State Revenues Reduced		
Repeal Hall Income Tax	169,000,000	
Credit Against Professional Tax	15,000,000	
Subtotal - Revenues Reduced	184,000,000	
Net Increase in State Revenues	$2,360,000,000	$1,221,120,000

Assumptions for Changes in State Revenues:

1. **Flat Tax** - The first full year reflects a rate of 3.75% on adjusted gross income, exemption levels as outlined in this bill, 1998 income data (adjusted), capital gains taxed at 50% and a 10% compliance factor. The amount estimated for FY99-00 assumes collection of 48% of the first full year since employers will be allowed to begin withholding at any time from 1/1/00 to the first payroll after 3/31/00.

2. **Hall Income Tax** - This figure represents estimated collections for FY00-01 and does not reflect any decreases for the current fiscal year due to the year in which such taxes are due.

3. **Credit against Professional Tax** - The first full year estimate represents the credit received by in-state professionals. It is estimated that the current year will not be affected since the credit will be realized on tax returns filed on or after April 15, 2001.

4. The net increase in state revenues does not consider funds which would be provided to the Rainy Day Fund by passage of this bill since existing statues require 10% of the estimated growth in revenues to be allocated to such fund.

Assumptions for State Expenditures:

1. The estimate for FY99-00 represents funding for seven months with $8,964,000 for recurring items and $2,761,600 for computers, workstations, printers, furniture, training, and other one-time type expenses. It is estimated that 291 additional positions will be added in various divisions throughout the Department of Revenue to carry out provisions of the bill.
2. The estimate for FY00-01 is an amount of approximately $27,000,000 for recurring costs and $1,098,400 for one-time expenses not incurred during FY99-00. An additional 139 full-time positions throughout the department are estimated to be needed and 190 part-time positions in the Processing Division to assist in tax returns filed after January 1, 2001.
3. The estimated recurring expenditures for FY00-01 represent an increase in recurring needs of $18,036,000 over FY99-00, since the program will be fully functional at some point during the fiscal year beginning July 1, 2000.
4. The additional positions will be established as needed at various times during FY99-00 and FY00-01; therefore, recurring expenses will not be fully realized until FY01-02 and are estimated to be approximately $30,000,000 utilizing 430 full-time positions and 190 part-time positions.

A summary of expenditures is shown below:

	FY99-00	FY00-01	FY01-02 & thereafter
Recurring	$8,964,000	$27,000,000	$30,000,000
One-Time	2,761,600	1,098,400	
Total	$11,725,600	$28,098,400	$30,000,000

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director